
SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full document. You should read the whole document before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set forth in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We are a smart learning device service provider in China, focusing on the design, development, manufacturing and selling of a broad range of smart learning devices embedded with comprehensive digital educational resources for China’s primary and secondary students, their parents and school teachers. We have become a major technology-powered smart learning device service provider with an established education ecosystem in China. According to the Frost & Sullivan Report, we ranked second among China’s smart learning device service providers in terms of total retailing market value and ranked fifth among China’s smart learning device service providers in terms of total device shipment in 2021. Our Readboy brand was recognized as a Famous Trademark in Guangdong Province and a reputable technology-powered education brand in China, including the Parents’ Most Trusted Education Brand for Kids in 2018 and the Technical Leading Education Brand in 2018 both recognized by Tencent News Annual Education Event, the Most Trusted Education Brand in 2019 awarded by Xinhua Net Education Forum. We have accumulated over 5.4 million registered users as of the Latest Practicable Date, and by April 2022, our MAU amounted to over 1.4 million in the past 12 months.

We design, develop, manufacture and market a broad range of smart learning devices, including personal student tablets, smart classroom solutions, wearable products and a number of smart accessories. Our smart learning devices are embedded with comprehensive digital educational resources, mainly synchronous lesson preparation, review and learning materials, which are supplemental to the in-school education for primary and secondary school students in China. During the Track Record Period, a substantial majority of our revenue was derived from the sales of our smart learning devices. Currently, the end users can only access our device-level embedded digital educational resources through our smart learning devices and we do not separately charge additional fees for such embedded digital educational resources. Moreover, in that we have accumulated our brand recognition for high quality and diverse digital educational resources, since 2019, we have established cooperative arrangements with third parties, usually online content distribution platforms or content streaming device systems with education-focused channels, under which we licensed certain digital educational resources to such third parties, on a non-exclusive basis, to display on their platforms and share service fees charged from their users. We endeavor to leverage the advanced technologies to create a flexible, efficient, effective, interactive and personalized learning experience.

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In addition, we have established an extensive, well-managed nationwide offline distribution network with deep penetration. Our distributors not only market and sell our products, but also deliver customer services, especially to places where educational resources are typically inadequate. Face-to-face communications provide better experience for users to understand our products and an effective way to convey our philosophy of education, which facilitates us in effectively acquiring end users and maintaining a large, loyal and expanding user base. As of the Latest Practicable Date, we contracted 132 offline distributors who controlled a total of 4,523 points of sales located in 344 cities covering 31 provinces and autonomous administrative regions, including municipalities, across China. We strive to establish a nationwide distribution network with deep penetration, especially in third- and lower-tier cities in China. The number of the points of sales located in third- and lower-tier cities accounted for approximately 68.6%, 69.7% and 70.9% of total points of sales in 2019, 2020 and 2021, respectively. We also distribute our smart learning devices empowered by our digital educational resources through self-operated online channels as well as online distributors.

We believe that technology has been, and will continue to be, crucial to our success. We have continuously developed and applied various advanced technologies to our smart learning devices. Our high quality, multi-functional and professional products are contributable to differentiate us from our competitors and retain a loyal user base. We also endeavor to strengthen our IT technologies and infrastructures, which ensure our digitalized operations.

Our Mission and Vision

Our mission is to take advantage of technology empowerment to make study a pleasant experience.

We strive to become a major smart learning device service provider in China specializing in the provision of all-in-one self-directed learning solutions for students to improve learning efficiency, and the provision of all-in-one smart classroom solutions for schools to improve precise education.

Our Technology-powered Education Ecosystem

We have developed an integrated technology-powered education ecosystem, aiming to offer all-in-one smart learning device service with high quality and diverse digital educational resources catering to the learning needs of primary and secondary school students, their parents and school teachers in China. Our education ecosystem is able to fulfill the full spectrum of applications for various education scenarios and offering an innovative learning experience.

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Our Smart Learning Devices

We design, develop, manufacture and market a broad range of smart learning devices empowered by comprehensive digital educational resources primarily targeting primary and secondary students in China, creating a flexible, efficient, effective, interactive and personalized learning experience.

- **Personal student tablets.** Our personal student tablets are designed for personal end users who are primary and secondary (including middle and high school) students aging from 6 to 18, equipped with digital educational resources, mainly synchronous lesson preparation, review and learning materials, which are supplemental to the in-school education for compulsory school education, and certain selected featured learning resources. In 2018, the total shipment of our personal student tablets was 399.6 thousand units. During the Track Record Period, the total shipments of our personal student tablets were 456.9 thousand units, 484.6 thousand units and 458.8 thousand units in 2019, 2020 and 2021, respectively, and revenue derived from such products amounted to RMB541.5 million, RMB664.9 million and RMB705.0 million, respectively, over the same periods. The increase in revenue derived from personal student tablets was primarily due to a general increase in the proportion of upgraded product models which typically carried a higher selling price. The retail price of our personal student tablets mainly ranges from approximately RMB2,000 to RMB5,000.
- **Smart classroom solutions.** Our smart classroom solutions typically refer to the smart educational devices embedded with smart classroom management functions, which provide a connected and interactive learning environment for school teachers and students on one hand and enable parents to monitor the learning status of their children on the other hand. Our smart classroom solutions are designed for primary and secondary schools and aim to enhance the way of teaching and learning digitally, promoting teaching quality and efficiency. In 2018, the total device shipment of our smart classroom solutions was 4.3 thousand units. During the Track Record Period, the total device shipments of our smart classroom solutions were 7.1 thousand units, 21.3 thousand units and 19.9 thousand units in 2019, 2020 and 2021, respectively. The decrease in total shipment from 2020 to 2021 was primarily because (i) in the fourth quarter of 2021, in progress of upgrading our strategy of smart classroom to smart campus, we allocated more resources to its research and development and less in marketing for our smart classroom solutions, and (ii) one major distributor of our smart classroom solutions shifted its business focus on assisting us in promoting smart homework systems and reducing its purchases from us as a result. We had supplied our smart classroom solutions to 65, 50 and 113 schools in 2019, 2020 and 2021, respectively. Revenue derived from smart classroom solutions amounted to RMB8.2 million, RMB22.3 million and RMB23.6 million, respectively, in 2019, 2020 and 2021. The retail price of the smart educational devices sold under our smart classroom solutions mainly ranges from approximately RMB1,998 to RMB4,898 per unit.

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- **Wearable products.** Wearable products provides a wireless and hand-free access to various visual and audio educational resources beyond classroom in pockets of time. Such devices have expanded education scenarios and fueled the students with additional fun and motivation in learning during fragmentary time. In this regard, we have developed smartwatches specifically focusing on educational features and functions. In 2018, the total shipment of our wearable products was 510.7 thousand units. During the Track Record Period, the total shipments of our wearable products were 380.9 thousand units, 112.2 thousand units and 188.5 thousand units in 2019, 2020 and 2021, respectively. Revenue derived from such products amounted to RMB111.8 million, RMB31.7 million and RMB53.7 million, respectively, in 2019, 2020 and 2021. The retail price of our wearable products mainly ranges from approximately RMB390 to RMB1,000.
- **Other products.** We identify emerging market needs and trends and from time to time develop teaching and learning accessories that compatible to our smart learning devices, such as smart reader pens, aiming to make learning more productive and efficient.

Our Digital Educational Resources

We strive to develop comprehensive digital educational resources catering to the diverse learning needs of primary and secondary school students in all age groups, facilitating them to develop more productive and efficient learning skills, and thus, better academic performance. Our current major digital educational resources may be classified into:

- **Synchronous lesson learning resources.** Our synchronous lesson learning resources have covered all grades in primary and secondary schools and a wide range of academic subjects, including Chinese, mathematics, English, physics, chemistry and so on. We also further classify such educational resources into multiple levels of difficulty for basic and advanced learners, which may contain differentiated learning skills and key study points.
- **Advanced learning resources.** We have developed advanced learning resources for students who pursue higher academic achievements, such as phonics sessions and mathematical thinking training sessions.
- **Featured learning resources.** We also design and offer a suite of featured learning resources, aiming to inspire and support students’ various interests and skills, such as computer programing, calligraphy, safety education, STEAM and science exploration resources.

We produce short-form animation courseware, each focusing on one knowledge point and lasting for about three minutes. As of the Latest Practicable Date, we had produced 3,319 such animation courseware. In addition, we also offer online pre-recorded video resources held by our certified educational resource research crew, through our online learning platform. As of the Latest Practicable Date, our online learning platform had hosted pre-recorded video lasting for over 11,270 hours.

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OUR MARKET OPPORTUNITIES AND MARKET POSITIONS

We operate in a highly competitive industry, while we believe that there remain huge market opportunities and unsatisfied learning needs nationwide, especially in lower-tier cities. According to the Frost & Sullivan Report, in 2021, total K-12 students in China was approximately 232.2 million persons, of which 169.5 million, or 73%, were located in third- and lower-tier cities. It is expected to be 224.3 million K-12 students in China by 2026, of which 161.5 million, or 72%, are located in third- and lower-tier cities. Despite a mild decrease in the absolute number of population, the overall smart learning device service market is still underserved mainly due to the limited number of industry players and presents remarkable opportunities. In addition, the continuous implementation of the “two-child policy” in 2016 and the recently announced “three-child policy” in 2021 by the central government would also boost the long-term population growth and improve the country’s population structure.

The smart learning device service market we operate in may be further classified into two main segments, namely the To-C-based learning market which mainly serves personal end users and the To-B-based learning market which mainly refers to digital in-school teaching solutions. In 2021, the total market of smart learning device in China reaches RMB65.9 billion and the market size of the To-C-based segment was RMB32.9 billion, representing a CAGR of 23.7% and 22.5% from 2017, respectively. The total market of smart learning device in China is expected to reach RMB145.0 billion and the market size of the To-C-based segment is expected to reach RMB74.1 billion in 2026, representing a CAGR of 17.1% and 17.6%, respectively, from 2021 to 2026.

OUR MAJOR SUPPLIERS AND MAJOR CUSTOMERS

During the Track Record Period, aggregate purchases from our top five third-party suppliers or supplier groups in terms of dollar amount in aggregate accounted for approximately 27.3%, 28.3% and 26.1%, respectively, of our total purchase costs in 2019, 2020 and 2021. Purchase from our largest supplier in terms of dollar amount accounted for approximately 7.9%, 6.7% and 12.7%, respectively, of our total purchase costs in such periods. During the Track Record Period, our suppliers were mainly raw material suppliers of custom metal and plastic components, electronic components, lithium-ion batteries, liquid crystal displays and so on.

During the Track Record Period, revenue derived from our top five customers or customer groups accounted for 29.5%, 25.9% and 29.8% of our total revenue for the years ended December 31, 2019, 2020 and 2021, respectively. Revenue derived from the respective largest customer or customer group over the same periods accounted for 9.3%, 6.7% and 10.0%, respectively. During the Track Record Period, the substantial portion of our customers were our distributors, who were not our agents, and our sales to the distributors are without recourse.

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PRICING

We take into account a number of factors in determining the price of our products, including costs relating to procurement and production, market demands, spending patterns of our target consumers, the prices set by major competitors, and the anticipated profit margins for us.

We adopt a uniformed selling price strategy and typically offer a discount/rebate rate to our distributors. The purchase prices set for our distributors currently represent approximately 52% of the suggested retail price we set out for end users in the relevant period. Our revenue is stated net of such sales discounts/rebates. In light of the sales by our distributors to end users, we set a suggested retail price for each of our products as well as a maximum retail price that our distributors shall follow. Offline distributors may slightly adjust their selling prices with our prior consent. To avoid unhealthy competition, selling prices of the products available in our online storefronts are generally consistent with that of the products of the same model sold to end users through our distributors, both offline and online.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths differentiate us from our competitors and have contributed to our success:

- A China’s major smart learning device service provider, building a complete education ecosystem with multiple growth potential;
- High quality and comprehensive digital educational resources underpinned by comprehensive and strong content development capability;
- An extensive distribution network with deep penetration which delivers innovative experience, ensures user acquisition efficiency and effectively improves the imbalance in educational resource allocation;
- Successful applications of advanced technologies and strong AI and big-data capabilities, realizing personalized precision education and maintaining a large and growing user base; and
- Experienced, visionary and dedicated management team.

OUR BUSINESS STRATEGIES

Our objective is to become a trusted smart learning device service provider. We expect to continue to grow and expand our business, and to further strengthen and advance our leadership and market share in China. We aim to achieve this through the following strategies:

- Continue to optimize our technology-powered education ecosystem and to identify and realize additional growth potentials and revenue streams;
- Continue to enhance our educational resource development capability and further diversify the offering scope, aiming to deliver greater learning experience and efficiency;

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- Deepen the reform of our distribution network and strengthen its penetration; and
- Selectively pursue strategic investment or acquisition opportunities, extending the value chain of our education ecosystem.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as of and for the years ended December 31, 2019, 2020 and 2021, extracted from the Accountants’ Report set out in Appendix I to this document. The below summary should be read in conjunction with the consolidated financial information in Appendix I, including the accompanying notes and the information set forth in “Financial Information.”

Summary Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth the consolidated statements of profit or loss and other comprehensive income of our Group with line items in absolute amounts and as percentages of total revenue for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	<i>(In thousands, except for percentages)</i>					
Revenue	669,853	100.0	733,997	100.0	813,181	100.0
Cost of sales	(495,470)	(74.0)	(532,285)	(72.5)	(644,009)	(79.2)
Gross profit	174,383	26.0	201,712	27.5	169,172	20.8
Other income and gains	30,623	4.6	42,741	5.8	60,098	7.4
Selling and distribution expenses	(63,490)	(9.5)	(74,163)	(10.1)	(73,060)	(9.0)
Administrative expenses	(20,203)	(3.0)	(21,865)	(3.0)	(44,008)	(5.4)
Research and development expenses	(36,428)	(5.4)	(30,211)	(4.1)	(43,870)	(5.4)
Other expenses	(7,752)	(1.2)	(15,067)	(2.1)	(22,867)	(2.8)
Finance costs	(1,227)	(0.2)	(359)	(0.0)	(88)	(0.0)
Changes in fair value of financial liabilities at fair value through profit or loss	–	–	–	–	26,649	3.3
Profit before tax	75,906	11.3	102,788	14.0	72,026	8.9
Income tax credit/(expense)	(6,471)	(0.9)	(10,775)	(1.5)	10,120	1.2
Profit and total comprehensive income for the year	<u>69,435</u>	<u>10.4</u>	<u>92,013</u>	<u>12.5</u>	<u>82,146</u>	<u>10.1</u>
Attributable to owners of the parent	<u>69,435</u>	<u>10.4</u>	<u>92,013</u>	<u>12.5</u>	<u>82,146</u>	<u>10.1</u>

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Non-HKFRS Measures – Adjusted Net Profit and Adjusted Net Profit Margin

To supplement our combined financial statements, which are presented in accordance with HKFRS, we also present adjusted net profit and adjusted net profit margin as additional financial measures, which are not required by, or presented in accordance with, HKFRS. Adjusted net profit, as we present it, represents profit for the year before [REDACTED] expenses and changes in fair value of financial liabilities at fair value through profit or loss in connection with the shares we issued to our [REDACTED] Investors. Adjusted net profit margin is calculated by adjusted net profit for the year divided by total revenue for the year. [REDACTED] expenses are expenses in relation to the [REDACTED]. Changes in fair value of financial liabilities at fair value through profit or loss are expenses in connection with the shares we issued to our [REDACTED] Investors, the amount of which may not directly correlate with the underlying performance of our business operations. We believe that the presentation of non-HKFRS measures, when shown in conjunction with the corresponding HKFRS measures, provides useful information to [REDACTED] and management regarding financial and business trends in relation to our financial condition and results of operations that could otherwise be distorted by the effect of the expenses that we include in income from operations and net profit. We believe that these non-HKFRS measures provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects, and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making and comparing the financial results across accounting periods and to those of our peer companies.

While these non-HKFRS measures provide additional financial measures for [REDACTED] to assess our operating performance, the use of these non-HKFRS measures has certain limitations because they do not reflect all items of income and expense that affect our operations. Our presentation of these non-HKFRS measures should not be construed as an inference that our future results will be unaffected by such unusual item.

These non-HKFRS measures should not be considered in isolation or construed as a substitute for analysis of HKFRSs financial measures. In addition, because they may not be calculated in the same manner by all companies, our adjusted net profit (a non-HKFRS measure) and adjusted net profit margin (a non-HKFRS measure) may not be comparable to the same or similarly titled measures presented by other companies.

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As a measure of our operating performance, we believe that the most directly comparable HKFRSs measures to adjusted net profit (a non-HKFRS measure) and adjusted net profit margin (a non-HKFRS measure) are profit and net profit margin, respectively, for the year. The following table reconciles profit and net profit margin for the year under HKFRSs to adjusted net profit (a non-HKFRS measure) and adjusted net profit margin (a non-HKFRS measure), respectively, for the year indicated:

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	69,435	92,013	82,146
Add:			
[REDACTED] expenses	–	–	[REDACTED]
Less:			
Changes in fair value of financial liabilities at fair value through profit or loss	–	–	26,649
Adjusted net profit for the year (a non-HKFRS measure)	69,435	92,013	[REDACTED]
Net profit margin	10.4	12.5	10.1
Adjusted net profit margin (a non-HKFRS measure)	10.4	12.5	9.5

Our overall gross profit and profit and comprehensive income increased from 2019 to 2020, primarily due to the increases in sales of our personal student tablets and smart classroom solutions. Both of our gross profit margin and net profit margin also increase over the same periods, which was primarily due to the constant improvements in our product mix where the proportion of sales of products with relatively higher profit margin increased. Our net profit increased by 32.5% from RMB69.4 million in 2019 to RMB92.0 million in 2020, primarily due to the increase in gross profit and other income and gains recognized from our repair and maintenance service income, sales of raw materials and accessory parts and trademark licensing income. Our net profit margin increased from 10.4% in 2019 to 12.5% in 2020. Due to a decrease in gross profit margin caused by the increased raw material costs and the [REDACTED] expenses of RMB[REDACTED] million we incurred in connection with this [REDACTED] in 2021, our net profit decreased by 10.7% to RMB82.1 million in the year ended December 31, 2021, comparing with the corresponding period in 2020, while the net profit margin decreased from 12.5% to 10.1% over the same periods. The fluctuations of net profit during the Track Record Period were primarily due to the changes in gross profit mainly resulting from the changes in raw material costs and marketing expenses in the corresponding periods. Without considering the impact of the [REDACTED] expenses and changes in fair value of financial liabilities at fair value through profit or loss which were in connection with the shares issued to our [REDACTED] Investors, our adjusted net profit, a non-HKFRS measure, would have decreased by 16.3% from RMB92.0 million in 2020 to RMB77.0 million in 2021, and our adjusted net profit margin, a non-HKFRS measure, would be 12.5% and 9.5% in 2020 and 2021, respectively. See “Financial Information” for a more detailed discussion of our financial performance during the Track Record Period.

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The following table sets out a breakdown of our revenue by product categories, each expressed in the absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(In thousands, except for percentages)</i>					
Personal student tablets						
Devices ⁽¹⁾	448,321	66.9	550,702	75.0	571,626	70.3
Digital educational resources and services ⁽¹⁾	93,173	13.9	114,226	15.6	133,397	16.4
Sub-total	541,494	80.8	664,928	90.6	705,023	86.7
Smart classroom solutions						
Devices ⁽¹⁾	7,249	1.1	20,419	2.8	19,300	2.4
Digital educational resources and services ⁽¹⁾	914	0.1	1,874	0.3	4,279	0.5
Sub-total	8,163	1.2	22,293	3.1	23,579	2.9
Wearable products ⁽²⁾	111,778	16.7	31,664	4.3	53,695	6.6
Other products	5,987	0.9	2,144	0.2	17,918	2.2
Advertisement and content licensing	2,431	0.4	12,968	1.8	12,966	1.6
Total	669,853	100.0	733,997	100.0	813,181	100.0

Notes:

- (1) During the Track Record Period, we did not separately charge fees based on digital educational resources we have offered. Instead, we consider the value of our personal student tablets and the smart classroom solutions represent the aggregate value of the hardware devices, and the associated digital educational resources and services. As such, revenue derived from devices is recognized at the point in time when control of the devices is transferred to the customers. Revenue derived from of the digital educational resources and services is recognized over the estimated user life on a straight-line basis.
- (2) During the Track Record Period, wearable products represented smartwatches.

Personal student tablets constituted our major product category during the Track Record Period. The increase in revenue from sales of personal student tablets from 2019 to 2020 primarily due to the increase in total sales volumes, which was a combined result of the development of our distribution network as well as our increased brand recognition and market acceptance of our smart learning devices and the associated digital educational resources, which in turn, due to the improvement of our product mix where the proportion of high-end product models with higher selling prices increased as we continued to upgrade the devices in response to the evolving market trend. The increase in revenue from 2020 to 2021 was primarily due to the improvement in product mix where the proportion of high-end product that

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with higher retail selling prices, such as our C30 personal student tablet which generally has a retail selling price of approximately RMB5,000, increased in 2021. During the same periods, the aggregate shipments of the personal student tablets were 456.9 thousand units, 484.6 thousand units and 458.8 thousand units, respectively, in 2019, 2020 and 2021. The decrease in total shipment from 2020 to 2021 was primarily due to the shortage in certain key materials, such as integrated circuits and display screens. The shortage was primarily caused by the COVID-19 outbreak since early 2020 which materially interrupted the production activities globally, in particular, in Taiwan, Japan, Korea and the United States where the major circuit manufacturers are located. On the other hand, market demands for laptops and desktop computers increased considerably during the COVID-19 pandemic, which further deteriorated the situation. To prevent future raw material shortage, we have carried out a number of measures, including (i) having secured additional suppliers for integrated circuits; (ii) increasing the versatility of raw materials to be used across different product models, so that we could increase the procurement with better price and larger amount; (iii) identifying alternative raw materials and expanding our bills of materials, so as to strengthen the supply chain management; (iv) paying particular attention to alternative raw materials that have not been adopted by other mainstream device manufacturers; and (v) updating our product designs by enabling conversion between different raw material suppliers. See “– Recent Developments – Developments in Raw Materials Supply” and “Risk Factors – Risks Relating to Our Industry and Business – Unexpected disruptions or delays in raw material supplies or disputes with our suppliers may cause disruptions and delays in our production, subject us to additional costs” for further information.

Revenue from sales of smart classroom solutions increased from 2019 to 2020, primarily as a result of the market acceptance of our smart learning devices and the associated digital educational resources, and also the result of the increase in sales volumes, reflecting the preferential educational regulations and policies promulgated by the local and central governments to promote digital education industry. The increase was also attributable to the expansion of our distribution network. The increase in revenue from 2020 to 2021 was primarily due to the improvement in product mix. During the Track Record Period, the total device shipments of our smart classroom solutions were 7.1 thousand units, 21.3 thousand units and 19.9 thousand units in 2019, 2020 and 2021, respectively. The decrease in total shipment from 2020 to 2021 was primarily because (i) in the fourth quarter of 2021, in progress of upgrading our strategy of smart classroom to smart campus, we allocated more resources to its research and development and less in marketing for our smart classroom solutions, and (ii) one major distributor of our smart classroom solutions shifted its business focus on assisting us in promoting smart homework systems and reducing its purchases from us as a result.

See “Financial Information” for a more detailed discussion of our financial performance during the Track Record Period.

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The following table sets forth a breakdown of our gross profit and gross profit margin by product categories for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Personal student tablets						
Devices	94,433	21.1	108,642	19.7	51,353	9.0
Digital educational resources and services	58,193	62.5	74,326	65.1	89,320	67.0
Sub-total	152,626	28.2	182,968	27.5	140,673	20.0
Smart classroom solutions						
Devices	1,844	25.4	2,883	14.1	1,809	9.4
Digital educational resources and services	571	62.5	1,219	65.0	2,853	66.7
Sub-total	2,415	29.6	4,102	18.4	4,662	19.8
Wearable products	15,877	14.2	3,446	10.9	7,884	14.7
Other products	1,393	23.3	3	0.1	5,432	30.3
Advertisement and content licensing	2,072	85.2	11,193	86.3	10,521	81.1
Total	174,383	26.0	201,712	27.5	169,172	20.8

Our overall gross profit increased from 2019 to 2020, primarily due to the increase sales of our personal student tablets and smart classroom solutions. Gross profit margin also continued to increase from 2019 to 2020, which was primarily due to the improvements in the product mix, where the proportion of sales of high-end product models increased that typically carried a relatively higher selling price and profit margin. Gross profit margin and gross profit margin decreased from 2020 to 2021, primarily due to an increase in raw material costs.

Gross profit of our personal student tablets increased by approximately 19.9% from 2019 to 2020, which was primarily due to the increase in total sales. We continued to improve the product mix so as to improve the overall gross profit margin of our personal student tablets. Gross profit margin of personal student tablets in 2019 was relatively higher as the proportion of sales of high-end product models increased that typically carried a relatively higher selling price and profit margin. Gross profit margin of personal student tablets slightly decreased in 2020, which was mainly a result of the increase in raw material costs in 2020, in part resulting from the temporary global shortage of certain key raw materials. The supply of certain raw materials remained unstable in 2021, which caused an increase in raw material costs and our gross profit and gross profit margin of personal student tablets decrease in 2021 as a result.

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Gross profit of our smart classroom solutions increased by approximately 69.9% from 2019 to 2020. Such increase was primarily due to the increased sales resulting from our efforts in promoting and marketing our smart classroom solutions. Gross profit margin of smart classroom solutions decreased from 29.6% in 2019 to 18.4% in 2020, mainly due to our enhanced promotional activities, such as preferential pricing policies in favor of the distributors, so as to expand the market coverage. Gross profit of smart classroom solutions increased by 13.7% from 2020 to 2021, and gross profit margin of smart classroom solutions slightly increased from 18.4% in 2020 to 19.8% in 2021, primarily due to the increase in the proportion of upgraded product models which generally carried a higher selling price and a higher gross profit margin, partially offset the adverse impact of the increase in raw material costs. To further increase our market share, in 2021, we strengthened the marketing incentives for distributors, including but not limited to offer free trial products to schools in order to secure potential business opportunities. We believe such marketing approach is effective and the gross profit margin of our smart classroom solutions will improve in the future as the sales increase.

See “Financial Information” for a more detailed discussion of our financial performance during the Track Record Period.

Summary of Consolidated Statements of Financial Position

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	117,992	116,352	105,637
Property, plant and equipment	51,993	50,394	48,453
Investment properties	14,378	13,992	13,606
Deferred tax assets	18,761	22,131	32,548
Current assets	391,120	523,860	707,265
Inventories	219,409	198,766	258,219
Trade receivables	16,965	23,566	47,551
Cash and cash equivalents	133,366	253,318	333,340
Current liabilities	248,256	424,141	391,944
Trade and bills payables	85,101	97,206	68,299
Other payables, accruals and contract liabilities	145,419	190,525	197,748
Amounts due to shareholders	–	128,000	117,561
Net current assets	142,864	99,719	315,321
Total assets less current liabilities	260,856	216,071	420,958
Non-current liabilities	32,392	38,284	162,020
Financial liabilities at fair value through profit or loss	–	–	120,365
Net assets	228,464	177,787	258,938

SUMMARY

Our net current assets decreased from RMB142.9 million as of December 31, 2019 to RMB99.7 million as of December 31, 2020, primarily due to the amounts due to shareholders in connection with the dividends declared in November 2020. Net current assets increased to RMB315.3 million as of December 31, 2021 from RMB99.7 million as of December 31, 2020, primarily due to an increase of RMB80.0 million in cash and cash equivalents as well as an increase of RMB59.5 million in inventories.

Our net assets decreased from December 31, 2019 to December 31, 2020, primarily due to the dividends declared in November 2020 which amounted to RMB160.0 million, partially offset by our profit and total comprehensive income of RMB92.0 million in 2020. Net assets further increased to RMB258.9 million as of December 31, 2021, primarily due to our profit and total comprehensive income of RMB82.1 million in the year ended December 31, 2021.

As of December 31, 2021, we recorded financial liabilities at fair value through profit or loss of RMB120.4 million, which were in connection with the issue of redeemable shares to certain [REDACTED] Investors. The repurchase right granted to the [REDACTED] Investors would terminate upon the [REDACTED] and all the redeemable shares would be converted to our ordinary shares, on a one for one basis, upon the [REDACTED] and the completion of the [REDACTED].

Summary Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before			
movements in working capital	88,160	104,632	59,313
Movements in working capital	4,152	23,743	(102,186)
Interest received	1,096	3,167	3,335
Income tax paid	(3,317)	(13,602)	(916)
Sub-total: Net cash flows generated			
from/(used in) operating activities	90,091	117,940	(40,454)
Net cash flows used in investing			
activities	(29,104)	(4,454)	(11,432)
Net cash flows generated from			
financing activities	3,442	6,466	133,722
Net increase in cash and cash			
equivalents	64,429	119,952	81,836
Cash and cash equivalents at the			
beginning of the year	68,937	133,366	253,318
Effect of foreign exchange rate			
changes, net	–	–	(1,814)
Cash and cash equivalents at the			
end of the year	<u>133,366</u>	<u>253,318</u>	<u>333,340</u>

SUMMARY

Despite the operating cash inflow before movements in working capital of RMB59.3 million, which mainly resulted from profit before tax of RMB72.0 million, partially offset by changes in fair value of financial liabilities at fair value through profit or loss, we recorded net cash flow used in operating activities of RMB40.5 million for year ended December 31, 2021. Our movement in working capital primarily reflected (i) an increase of RMB60.6 million in inventories as we increased raw material procurement in the anticipation of the rising market demand for such raw material and our products, (ii) a decrease of RMB28.9 million in trade and bills payables, and (iii) an increase of RMB24.4 million in trade receivables. Given that the [REDACTED] expenses are in connection with this [REDACTED] and that our raw material procurement is expected become normalized to previous level, we believe that the net cash flows used in operating activities in the year ended December 31, 2021 is temporary and we are able to improve our cash flow during the ordinary course of business in the subsequent period.

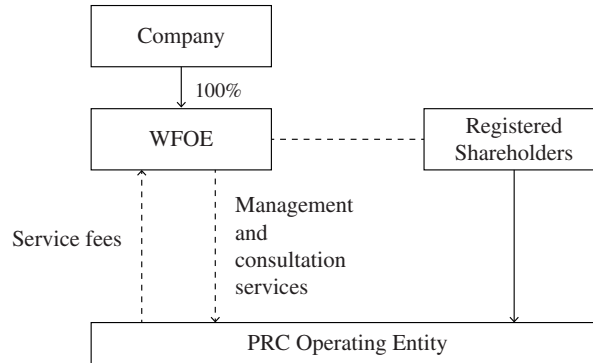
Going forward, we plan to improve our net operating cash flow position by (a) continuing to upgrade our products and expand product and service offerings so as to increase our revenue from sales of existing and new smart learning devices products and new services, (b) continuing to monitor and enhance management over our trade and bills receivables collection, (c) enhancing our inventory management, optimizing our inventory levels based on production and sales forecasts and further shortening inventory turnover period to accelerate cash realization rate, (d) continuing to review and implement comprehensive measures to optimize our cost structure and control our costs and expenses and (e) maximizing the value of our surplus cash through investments at low risk.

CONTRACTUAL ARRANGEMENTS

We currently conduct our smart learning device service business through Zhuhai Readboy in the PRC. Our digital educational resources production and sales business is considered as value-added telecommunications services in the PRC. PRC laws and regulations generally restrict foreign ownership in value-added telecommunications services in the PRC and also impose qualification requirements on the foreign owners. Given that our business falls within the scope of “value-added telecommunications” which requires an ICP License to operate in the PRC, we cannot hold a direct controlling interest in Zhuhai Readboy, which holds the licenses and permits required for its business operations. Instead, we maintain effective control over Zhuhai Readboy and its business operations through Contractual Arrangements. For more details, please refer to the section headed “Contractual Arrangements” in this document.

SUMMARY

The following simplified diagram illustrates the flow of economic benefits from Zhuhai Readboy to our Group stipulated under the Contractual Arrangements:



Notes:

“ —> ” denotes direct legal and beneficial ownership in the equity interest

“ -.-> ” denotes contractual relationship

“ -.-.- ” denotes the control by WFOE over the Registered Shareholders through (1) powers of attorney to exercise all Registered Shareholders rights in Zhuhai Readboy, (2) exclusive options to acquire all or part of the equity interests in Zhuhai Readboy held by the Registered Shareholders, (3) equity pledge over the interest in Zhuhai Readboy, and (4) the Individual Shareholder Spouse Undertakings.

CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued pursuant to the [REDACTED] RSU Scheme and [REDACTED] Share Option Scheme), by virtue of the Concert Parties Confirmatory Deed, Mr. Chen, Mr. Qin, Sky Focus, Kimlan Limited and Trade Honour will be together interested in approximately [REDACTED]% of the issued share capital of the Company. Sky Focus is entirely held by Kimlan Limited which is in turn entirely held by Maples Trustee Services (Cayman) Limited, the trustee of Joywish Family Trust. Joywish Family Trust is a discretionary trust established by Mr. Chen as the settlor, and the beneficiaries of which include Mr. Chen and his family members. Trade Honour is a wholly-owned company of Mr. Qin. As Mr. Chen, Mr. Qin, Sky Focus, Kimlan Limited and Trade Honour will continue to control more than [REDACTED]% of the issued share capital of the Company, and by virtue of the Concert Parties Confirmatory Deed, they will be regarded as a group of Controlling Shareholders under the Listing Rules. For more details, please refer to the section headed “Relationship with our Controlling Shareholders” in this document.

[REDACTED] INVESTORS

On March 22, 2021, Glorious Achievement, Golden Genius and Mr. Cheng entered into a share purchase agreement with Mr. Chen, Sky Focus, Mr. Qin, Trade Honour, Readboy Education Group, Readboy Education HK, Readboy Technology, Zhuhai Readboy and the Company, pursuant to which the Company agreed to allot 44,403, 18,308 and 4,577 Shares to Glorious Achievement, Golden Genius and Mr. Cheng respectively at a consideration of US\$15,000,000, US\$6,184,674.38 and US\$1,546,168.59 respectively.

SUMMARY

Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued pursuant to the [REDACTED] RSU Scheme and [REDACTED] Share Option Scheme), Glorious Achievement, Golden Genius and Mr. Cheng will hold approximately [REDACTED]%, [REDACTED]% and [REDACTED]% of the issued Shares. For more details, see the paragraph headed “History, Reorganization and Corporate Structure – [REDACTED] Investments” of this document.

[REDACTED] EXPENSES INCURRED AND TO BE INCURRED

We expect to incur [REDACTED] expenses of approximately RMB[REDACTED], accounting for approximately [REDACTED]% of total gross [REDACTED] from the [REDACTED], including [REDACTED]-related expenses of approximately RMB[REDACTED] and non-[REDACTED] related expenses of approximately RMB[REDACTED], which consist of fees and expenses of legal advisors and accountants of approximately RMB[REDACTED] and other fees and expenses of approximately RMB[REDACTED], assuming the [REDACTED] is not exercised and based on an [REDACTED] of HK\$[REDACTED] (being the mid-point of our [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]). During the Track Record Period, we incurred RMB[REDACTED] million as [REDACTED] expense, of which approximately RMB[REDACTED] million had been recognized as administrative expenses and approximately RMB[REDACTED] million will be recognized as a deduction in equity directly upon the [REDACTED]. We expect to incur additional [REDACTED] expenses of RMB[REDACTED] for the year ending December 31, 2022, of which approximately RMB[REDACTED] is expected to be recognized as administrative expenses for the year ending December 31, 2022 and approximately RMB[REDACTED] is expected to be recognized as a deduction in equity directly upon the [REDACTED].

[REDACTED]

SUMMARY

[REDACTED]

FUTURE PLANS AND [REDACTED]

The table below sets forth the estimated [REDACTED] of the [REDACTED] which we will receive after deduction of [REDACTED] fees and commissions and estimated expenses payable by us in connection with the [REDACTED]:

	Assuming the [REDACTED] is not exercised	Assuming the [REDACTED] is exercised in full
Assuming an [REDACTED] of HK\$[REDACTED] per Share (being the mid- point of the [REDACTED] stated in this document)	HK\$[REDACTED]	HK\$[REDACTED]

SUMMARY

We intend to use the [REDACTED] of HK\$[REDACTED] of the [REDACTED] for the following purposes assuming the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED]) and assuming the [REDACTED] is not exercised:

- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used to deepen the reform of our distribution network and strengthen its geographic expansion and penetration;
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used for the research and development of our information technologies and infrastructure to enhance our overall technical advantages in delivering smart learning devices with high quality and diverse digital educational resources;
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used for the investments in optimizing our ecosystem to further enhance our competitiveness;
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used to enhance our educational material development capability and further diversify our digital educational resources; and
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used as our working capital and for general corporate purposes.

See “Future Plans and [REDACTED]” for further details.

DIVIDEND

Our PRC subsidiaries declared dividends of RMB160.0 million to our Shareholders in November 2020. We expect to use our cash at hand from operations to settle all these dividend distributions prior to the [REDACTED].

We may distribute dividends by way of cash, stock or other means that we consider appropriate. We may from time to time reevaluate our dividend policy in the future and the amount of dividends to be distributed to our Shareholders, if any, will depend upon our earnings, financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. Subject to the Companies Act and other applicable laws and regulations and our future investment plans, including but not limited to any material investment or acquisition, after the [REDACTED], our Board intends to recommend at the relevant shareholders meetings an annual dividend of no less than 20% of our profits available for distribution generated in each financial year. A decision to declare and pay any dividends would require the approval of the Shareholders’ meeting. In addition, the declaration and/or payment of dividends may be limited by legal restrictions and/or by contracts or agreements that we may enter into in the future.

SUMMARY

As of December 31, 2019, 2020 and 2021, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of our subsidiaries established in China. In the opinion of the Directors, our earnings will be retained in China for the expansion of our operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. As of December 31, 2019, 2020 and 2021, the aggregate amounts of temporary differences associated with the unremitted earnings of subsidiaries in the PRC for which deferred tax liabilities have not been recognized were approximately RMB99.5 million, RMB22.0 million and RMB81.8 million, respectively.

RISK FACTORS

There are certain risks involved in our operations and in connection with the [REDACTED], many of which are beyond our control. These risks can be categorized into (i) risks relating to our industry and business, (ii) risks relating to our contractual arrangements, (iii) risks relating to doing business in the PRC, and (iv) risks relating to the [REDACTED]. We believe that the most significant risks we face include the following: we are subject to risks and uncertainties in connection with the changes of the PRC education regulations and policies; our business depends heavily on the strength of our brand awareness and reputation and end users’ recognition and their trust in our products and digital educational resources; we face intense competition which could divert students to our competitors, lead to pricing pressure and loss of market shares; we may not be able to launch and diversify new products and educational resources to adapt to changing customer demands in a timely manner; our development strategies may not achieve the expected goals in the near term, or at all; we may not be able to successfully expand and strengthen our distribution network; and we may not be able to effectively control and monitor the third-party distributors’ operations or maintain our current relationship with them. A detailed discussion of all the risk factors involved are set forth in “Risk Factors” and you should read the whole section carefully before you decide whether to [REDACTED] in the Shares.

RECENT DEVELOPMENTS

Business and Financial Highlights

After the Track Record Period and up to the Latest Practicable Date, our business experienced a generally stable growth. Among others:

- our user base continued to grow and during the period from January 1, 2022 to the Latest Practicable Date, we had newly added over 0.3 million registered user; we have accumulated over 5.4 million registered users as of the Latest Practicable Date;
- by April 2022, our MAU amounted to over 1.4 million in the past 12 months, and it also remained at over 1.4 million in each of the months from August to December 2021, which increased to 1.5 million in each of the months from January to April 2022, indicating the unchanged popularity of our smart learning devices;

SUMMARY

- The table below sets forth our monthly shipment of personal student tablets since August 2021, the time when the Opinions were released, and up to April 2022 and corresponding periods in previous years for reference purpose:

	Year ended December 31,				
	2018	2019	2020	2021	2022
	<i>(units, in thousands)</i>				
January	46.4	48.5	57.8	51.1	19.1
February	18.5	29.6	33.3	38.8	12.5
March	26.6	27.1	51.4	43.9	23.4
April	17.5	13.1	25.9	12.5	18.2
August	45.0	54.0	74.8	36.7	N/A
September	66.5	82.5	59.9	61.7	N/A
October	23.7	23.4	29.7	23.5	N/A
November	23.4	35.9	32.2	11.3	N/A
December	33.5	21.6	28.5	54.0	N/A

The monthly shipment of personal student tablet in August and September 2021 was relatively high, which is consistent with the sales pattern in previous years because we generally record higher sales in summer vacation and at the beginning of the new school year as students generally increase their spending on smart learning devices at the beginning of a school year; the monthly shipment of personal student tablets was high in December 2021, primarily because our distributors increased their purchases with an earlier schedule in preparation for the upcoming Chinese New Year, which was in early February 2022, as the longer shipping time would be required under the intensified COVID-19 pandemic control restrictions and most logistic services would typically be suspended during such holidays; the monthly shipment of personal student tablets was low in January and February 2022, primarily due to (i) the relatively high inventory level of our distributors subsequent to their purchases made in December 2021, (ii) the relatively low sales in the Chinese New Year holiday and (iii) the uncertain market environment due to the resurgence of COVID-19 outbreak across the nation;

Compared to the three months periods from December to February in 2019, 2020 and 2021, respectively, the monthly shipment of personal student tablets was relatively higher in December 2021 and lower in January and February 2022, such different pattern was primarily because (i) the Chinese New Year of 2019 was in early February of the year, when the logistic services were not impacted by the COVID-19 pandemic, (ii) the Chinese New Year of 2020 was in late January of the year, when the logistic services were not impacted by the COVID-19 pandemic and

SUMMARY

(iii) the Chinese New Year of 2021 was in mid-February of the year, which respectively encouraged our distributors to generally arranged their purchases in preparation for the Chinese New Year in January of the corresponding year;

The relatively lower monthly shipment of personal student tablet in March 2022 was primarily due to the intensified COVID-19 pandemic control restrictions; the monthly shipment of personal student tablet was low in April, which is generally consistent with the sales pattern in previous years because less students choose to purchase smart learning devices during the spring semester; the relatively high monthly shipment of personal student tablet in April 2020 was primarily due to the initial outbreak of COVID-19 pandemic, which resulted in an increase in the number of students who studied at home;

- The table below sets forth our monthly total views of the pre-recorded video resources since August 2021, the time when the Opinions were released, and up to April 2022 and corresponding periods in previous years for reference purpose:

	Year ended December 31,				
	2018 ⁽¹⁾	2019 ⁽¹⁾	2020	2021	2022
	<i>(in millions)</i>				
January	N/A	N/A	1.5	5.8	7.3
February	N/A	N/A	6.7	6.0	6.6
March	N/A	N/A	5.9	5.1	6.6
April	N/A	N/A	4.3	4.8	5.4
August	N/A	N/A	6.5	10.6	N/A
September	N/A	N/A	4.0	5.4	N/A
October	N/A	N/A	4.2	5.2	N/A
November	N/A	N/A	4.3	5.8	N/A
December	N/A	N/A	3.9	4.7	N/A

Note:

- (1) Our system for such data was not available until 2020.

The relatively higher number of views in August was also because it was the summer vacation while the students have more time and their user activity on our devices is typically high; similarly, the relatively higher number of views in January 2022 was primarily due to (i) the increase in students switched to smart learning devices for after-school learning as a result of the implementation of the Opinions, which resulted in offline after-tutoring unavailable and (ii) the intensified COVID-19 pandemic control restrictions; the relatively higher number of views in March and April 2022 was primarily due to (i) the school closure as a result of the intensified COVID-19 pandemic control restrictions and (ii) the discontinuity of live-streaming classes which transferred students to pre-recorded video resources;

SUMMARY

- The table below sets forth our monthly newly registered users since August 2021, the time when the Opinions were released, and up to April 2022, and corresponding periods in previous years for reference purpose:

	Year ended December 31,				
	2018	2019	2020	2021	2022
	<i>(in thousands)</i>				
January	32.1	39.9	37.1	45.6	49.6
February	47.4	46.0	57.1	45.2	45.4
March	45.7	37.6	59.8	34.2	35.5
April	30.2	21.9	34.4	23.9	25.5
August	59.2	57.1	54.7	42.6	N/A
September	84.8	80.4	68.1	50.7	N/A
October	57.9	55.2	50.6	33.7	N/A
November	41.4	40.4	41.3	27.0	N/A
December	29.5	24.9	27.2	32.8	N/A

The number of newly registered users was relatively high in August and September, primarily due to the peak season for our sales during and shortly after the summer vacation; the number of monthly newly registered users was relatively higher in January than that in previous December, primarily due to the winter vacation; the relatively larger number of newly registered users in January 2022 as compared to January 2021 was primarily due to the intensified COVID-19 pandemic control restrictions;

While the aggregate shipments of the personal student tablets during 2021 and 2019 were at a similar level, the monthly newly registered users in 2021 were generally lower than that of the corresponding periods in 2019. Such relatively lower number of monthly newly registered users in 2021 was primarily due to our discontinuity of live-streaming classes after the issuance of the Opinions since August 2021. Unlike the pre-recorded video resources and other educational content offered by us, live-streaming classes require users to register accounts with us for gaining access;

- during the period from January 1, 2022 and up to the Latest Practicable Date, the total shipments of our personal student tablets, smart classroom solutions and wearable products amounted to approximately 74.9 thousand units, 1.3 thousand units and 30.9 thousand units, respectively; and
- since the end of the Track Record Period, we have continuously developed our distribution network; during the period from January 1, 2022 and up to the Latest Practicable Date, we newly contracted 24 offline distributors and terminated business with 15 offline distributors and the total number of points of sales increased to 4,523 controlled by 132 offline distributors as of the Latest Practicable Date.

SUMMARY

- Our gross profit margin decreased from 27.5% in 2020 to 20.8% in 2021, primarily due to an increase in raw material costs. During the same period, our net profit margin decreased from 12.5% to 10.1%, mainly resulting from the decrease in gross profit margin. In addition, our gross profit margin of personal student tablets decreased from 27.5% in 2020 to 20.0% in 2021 as a result of the unstable supply of certain raw materials in 2021 which caused an increase in raw material costs.

Our industry and our business operations have been facing the uncertainties from the release of the Opinions on Further Easing the Burden of Excessive Homework and After-school Tutoring for Students Undergoing Compulsory Education (the “**Opinions**”) (《關於進一步減輕義務教育階段學生作業負擔和校外培訓負擔的意見》) in July 2021, see “Recent Regulatory Changes” below for a detailed discussion.

Developments in Raw Materials Supply

In addition, in 2021, we have experienced a temporary global shortage of certain key raw materials, such as integrated circuits and display screens. The shortage was primarily caused by the COVID-19 outbreak since early 2020 which materially interrupted the production activities globally, in particular, in Taiwan, Japan, Korea and the United States where the major circuit manufacturers are located. On other hand, market demands for laptops and desktop computers increased considerably during the COVID-19 pandemic, which further deteriorated the situation. Such temporary shortage caused an increase in raw material costs, which in turn, affected our net profit in the relevant periods, see “Recent Developments” below for a detailed discussion about the impacts on our financial performance in the period following the Track Record Period. We believe the impacts on our operation and financial performance from the increase in raw material prices during and after the Track Record Period are not significant and as of the Latest Practicable Date, the supply shortage of such raw materials has been largely eased.

We have carried out a number of measures to prevent future raw material shortage, including (i) having secured additional suppliers for integrated circuits; (ii) increasing the versatility of raw materials to be used across different product models, so that we could increase the procurement with better price and larger amount; (iii) identifying alternative raw materials and expanding our bills of materials, so as to strengthen the supply chain management; (iv) paying particular attention to alternative raw materials that have not been adopted by other mainstream device manufacturers; and (v) updating our product designs by enabling conversion between different raw material suppliers.

SUMMARY

During the period from August 2021 to December 2021 and the period from January 2022 to April 2022, we noticed that certain of our distributors cancelled purchase orders from us. From August 2021 to December 2021, approximately 1.5% of the total orders of personal student tablets, in terms of the device unit, were cancelled in such period, which mainly included 2,759 units of personal student tablets, representing an aggregate gross sales amount of approximately RMB5.4 million. From January 2022 to April 2022, approximately 1.0% of the total orders of personal student tablets, in terms of the device unit, were cancelled in such period, which mainly included 650 units of personal student tablets, representing an aggregate gross sales amount of approximately RMB0.9 million. The aggregate amount, either in terms of device unit or the gross sales amount, is insignificant and would not have an adverse impact on our overall business and financial performance. To our best knowledge and after due inquiry, such cancellation was mainly due to the temporary delay in delivering certain models of the smart learning devices resulting from the shortage of certain raw materials, which caused the changes in customer demands and the relevant distributors decided to amend their purchases to meet the changing needs. Please also refer to “Risk Factors – Risks Relating to Our Business and Industry – Unexpected disruptions or delays in raw material supplies or disputes with our suppliers may cause disruptions and delays in our production, subject us to additional costs.”

Developments in Product Offering

In response to the new regulatory regime, subsequent to the Track Record Period, we closely reviewed our product offerings with a view to establishing a Readboy smart education ecosystem. Readboy smart education ecosystem is a student-centered smart learning environment powered by various advanced technologies, including AI, big data and 5G, which consists of smart learning device ecosystem and smart school solutions. To further build up the smart learning device ecosystem, we intend to develop more accessory products that deliver a pleasant and efficient learning experience, such as smart desk sets, smart audio books and so on. We also intend to develop additional STEAM education content. On the other hand, we have placed more focus on our smart school solutions, which support school with smart solutions on staff and campus management, teaching, facility operation and logistics management. Since October 1, 2021 and up to the Latest Practicable Date, we have launched a series new products of under smart school solutions, such as our smart classroom solutions, including new model of tablet device, interactive teaching flat panels with different display features, and two models of eye-protecting study lamps. We also optimized our smart exam review system and homework assignment system. In addition, in early 2022, we commenced to offer smart study desk sets, which provide students with electric adjustable study desks and chairs designed with human engineering. The introduction of smart study desk sets further strengthened our product offerings.

To sustain the competitiveness and attractiveness of our smart learning devices, we strive to continue to enhance the quantity and quality of the educational resources available on our smart learning devices. After the release of the Opinions, we had promptly discontinued the offering of our self-developed live-streaming classes. In addition to the existing pre-recorded video resources and courseware, to the extent permitted by the relevant laws and regulations, we have been actively identifying additional educational resources from third parties that can be accessed from our smart learning devices. We were advised by our PRC Legal Advisor that,

SUMMARY

pursuant to the Opinions, (i) live-streaming classes for academic subjects are not completely prohibited; provision of live-streaming classes is allowed as long as the following requirements are met: (a) providers shall be registered as non-profit organizations by competent governmental authorities; (b) providers shall obtain the permit to commence (辦學許可證) and/or other requisite approvals; (c) other requirements provided by competent governmental authorities, such as such classes cannot be provided in holidays and time slot after 9 PM during the working days. On the other hand, the Opinions also encourages provision of free online educational resources to students. Therefore, after the implementation of the Opinions, the central government of the PRC has established official online free educational resources platforms, such as the National Cloud Learning Platform for Primary and Secondary Students. There are also other qualified non-profit organizations with the permit to commence and other necessary approvals providing online free educational resources, including live-streaming resources. Since the discontinuity of our self-developed live-streaming resources and up to the Latest Practicable Date, in addition to the pre-recorded video resources prepared by ourselves, we also have made available access to such additional online free educational resources on our smart learning devices. In order to prudently comply with the Opinions and other newly released policies, we sought advice from our PRC legal advisor and conducted thorough due diligence on the relevant third party providing the online free educational resources to ensure such third party is qualified to provide the educational resource in accordance with the Opinions and other relevant policies. In particular, a designated team under our Readboy Institute of Education Technology selected and approved the third parties to offer online free educational resources on our smart learning devices on conditions that (i) such third parties hold valid permits to commence (non-profit) (辦學許可證(非營利性)) and (ii) such third parties and the relevant educational resources have been duly registered with on the National After-school Tutoring Regulatory and Service Platform (全國校外教育培訓監管與服務綜合平台). Recently, we have further strengthened our internal control policies on the selection of third parties who provide online free educational resources on our smart learning devices by further requiring the head of our Readboy Institute of Education Technology and an designated executive Director to provide approval for the access of relevant online free educational resources from our smart learning devices. In addition, our internal legal team will organize periodical trainings regarding the Opinions and other relevant polices for the relevant executive Director, the head of Readboy Institute of Education Technology and employees from our Readboy Institute of Education. We also require our internal legal team and, if necessary, may engage external legal advisors to provide legal supports to the relevant personnel in a timely manner during their daily operations. Our PRC legal advisor is of the view that the provision of online free educational resources on our smart learning devices by qualified non-profit organizations with the permit to commence and other necessary approvals is not in violation of the application laws and regulations, on the basis that (i) the relevant third parties providing the online free educational resources with qualifications of non-profit organizations, the permit to commence and other necessary approvals comply with the requirements under the Opinions; and (ii) the online free educational resources do not constitute the restrictive content as stipulated in the Provisional Administrative Provisions on the Pre-installation and Distribution of Mobile Smart Terminal Application Software (《移動智能終端應用軟件預置和分發管理暫行規定》). As of the Latest Practicable Date, we have not been found in violation of any relevant laws and regulations in connection with the provision

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of online free educational resources on our smart learning devices by qualified non-profit organizations. Our internal legal department is also responsible for the on-going review of the third-party content to ensure that the content is not illegal or restrictive based on the applicable laws and regulations, and that the relevant third parties have the copyright or are properly authorized to provide such content to us. Such additional online free educational resources may be accessed by our smart learning devices through third-party mobile apps or websites and the end users are at their discretion to install or uninstall such mobile app or to visit the relevant websites on the smart learning device. We currently do not pay fees for such free online educational resources and the end users are not separately charged fees either. We will continue to adopt the prudent approach when identifying more third parties for the provision of educational resources. Please also refer to “Risk Factors – Risks Relating to Our Business and Industry – Our failure to detect or prevent fraudulent or illegal activities or other misconduct by our employees, distributors, suppliers or other third parties may have a material adverse effect on our business” for more details. We will also explore new formats of collaboration that are permitted by the relevant laws and regulations.

We expect that our net profit for the year ending December 31, 2022 will be lower than that for the year ended December 31, 2021, primarily due to an increase in income tax expenses, an increase in marketing expenses and an increase in research and development expenses. We recorded tax credits in the year ended December 31, 2021 as a result of preferential tax reduction for one subsidiary and tax losses incurred by certain subsidiaries resulting from operating loss or deferred tax losses. We expect to incur income tax expenses in the year ending December 31, 2022. The estimated increase in marketing expenses would be mainly because we plan to further improve our marketing performance and introduce marketing activities to promote our service and products in the year ending December 31, 2022. The estimated increase in research and development expenses mainly due to our increased efforts in developing new smart learning products in the year ending December 31, 2022.

Our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since December 31, 2021, the end of the period reported on in the Accountants’ Report set out in Appendix I to this Document.

RECENT REGULATORY CHANGES

Education Related Regulations and Policies

It is noticed that local and central governments have issued a number of policies recently, promoting the healthy growth of after-school tutoring market, including but not limited to the restriction on class hours of after-school tutoring sessions, qualification of relevant teaching crew, requirements for operating online educational content and education APPs, regulating the pricing of online and offline courses and punishing false advertisements. In particular, in July 2021, the General Office of Central Committee of the Communist Party of China and the General Office of State Council issued the Opinions, which reaffirmed the government’s political strategies to promote the quality of compulsory in-school education and increase the

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diversity of educational services provided by schools, and indicated the government’s initiatives to strengthen the offering of free online education content and encourage students to utilize such education content. According to the Opinions, after-school tutoring industry will be subject to more stringent regulatory restrictions while in-school education will play a more significant role for China’s primary and secondary school students. A number of follow-up new policies were released after the Opinions, but it is uncertain at current stage whether the central and local education authorities will introduce additional and more stringent regulations to govern the after-school tutoring market, and when and how those detailed rules will be implemented, and how they still affect our industry and our business operations. If the PRC government continues to impose stricter regulations on areas we may be involved in, we could face higher costs in order to comply with those regulations, which could impact our profitability.

Business Adjustments

As confirmed by the relevant governmental authority our PRC Legal Advisor detailed in the following paragraphs, we are not an after-school tutoring service provider whose operations are directly regulated by the Opinions. See “– Recent Communications with Regulatory Authorities” below for further details. Our smart learning devices are designed to encourage students’ learning interests and cultivate their learning habits, and the embedded digital education resources do not require compulsory attendance and are not intended to set up any specific learning goal. Regardless of the above, we took a prudent approach and with an eye on better complying with the government policies, we had reviewed our business operations and had discontinued to offer any live streaming classes since August 2021. We have thoroughly reviewed our online platform and mobile APPs to remove the access to any live streaming classes and we have terminated any application process for such classes. To continue to fulfill the relevant learning needs, we have been producing pre-recorded video resources for those educational resources and the users are notified and redirected to explore our pre-recorded video resources for the content they are interested in.

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We believe the discontinuity of live streaming classes will not have a material adverse impact on our business and financial performance, on the basis that (i) historically we did not separately charge fees based on digital educational resources we have offered, and (ii) leveraging our strong educational resource development capability and experience, we are able to maintain the quality and diversity of the content offerings on our smart learning devices by improving other forms allowed by the new regulatory regime, such as courseware and pre-recorded video resources. Such belief is supported by an online survey research conducted by Frost & Sullivan in January 2022 with 1,000 students and parents across the country. According to the survey, Frost & Sullivan concluded that, among others, (a) there are a number of factors the students and parents may consider when making the purchasing decision, and the variety and quality of question bank and pre-installed educational materials provided by the smart learning devices are among the top considerations, while the inclusion of live-streaming classes or not is not a major concern, (b) an overwhelming majority of students and parents who responded to the relevant questions expressed the willingness to continue to use smart learning devices which discontinue to offer live streaming classes, and (c) a majority of the students and parents who responded to the relevant questions selected smart learning devices with educational content over private tutoring as a supplementary education resource after the recent regulatory changes in 2021. As such, we believe that the popularity and the customer demand for smart learning devices in China remain strong which are not materially adversely affected by the release of the Opinions and the discontinuity of the live streaming classes available on the smart learning devices, if any. Moreover, we believe our business growth in the past several years has been attributable to a number of factors, including but not limited to, (i) the continuous improvements in the quality and functionality of our smart learning devices by adopting the latest technologies, (ii) the quality and the increasing amount of education resources, which were provided in the format of pre-recorded video resources, courseware, and live-streaming classes (prior to its discontinuity), (iii) the expansion of our distribution network which facilitates the distribution and sales of the smart learning devices, (iv) other various marketing efforts we have made over years, and (v) the established reputation and brand recognition. In addition, we also believe that our business growth has been a result of the gradual accumulation of these factors over time, which could not be achieved instantly by an occurrence of any isolated event, i.e. the launch of the self-developed live streaming classes. To maintain the variety and quality of our education resources after the discontinuity of the live streaming classes, we have been producing and uploading pre-recorded video resources for those educational resources previously provided by the live streaming classes. We did not directly convert live-streaming classes to pre-recorded video format and upload online. Instead, we summarize the key points based on the compulsory education curriculum and syllabus frameworks and produce video content that organize and present the key points in a way that the students could understand better. Going forward, we will continue to compete by developing high quality student tablets embedded with appealing educational resources in various formats. We will continue to upgrade our pre-recorded video resources on a regular basis. We will closely monitor the changes in national and local compulsory education curriculum and syllabus frameworks and new technology and education market trends, so as to modify our education resources accordingly in a timely manner. Moreover, we continue to adopt advanced technologies to produce and upgrade our video content by increasing the video resolution and making the content more interesting and engaging. Given that changes in compulsory education curriculum and syllabus are generally moderate, and our annual budgets have included the technical upgrades for our pre-recorded video resources, we do not expect to incur material costs and expenses in any given period in this regard. In the period from August 1 to September 21, 2021, the total views of our pre-recorded video resources amounted to 14.7 million times, comparing to 10.5 million times in the two-months period in August and September 2020. Total views increased by approximately 40.9% in the eight-month period from January to August 2021, comparing with the corresponding period in 2020, indicating an increasing popularity of our online education resources.

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We have also terminated the business plan in connection with selected paid courses. We believe that it will not have a material adverse impact on our overall business and financial performance because (i) historically we did not separately charge fees based on digital educational resources we have offered; (ii) paid courses were planned to be a supplement to our current business operations and our main revenue stream remains to be from the sales of smart learning devices, and (iii) the decision of not offering paid courses will not constitute any difficulty in implementing our other business plans. In addition, under the recent new regulatory regime which, among other things, targets to enhance the quality of compulsory education and to improve the online educational methods of schools, we believe our smart classroom solutions will become a significant strategic focus and advantage, as they are recognized by more schools as an effective teaching tool during their process of developing a digital education environment.

We have also reassessed and optimized our human resources to accommodate these adjustments to our business operations. In particular, we reviewed our full-time educational resource research and development crew who were primarily responsible for live-streaming classes, and reallocated them to content research and development, visual design, animation development and other teams, based on their respective skills and qualification. We did not terminate employment relationship with any of such full-time employees. With respect to our part-time educational resource research and development crew who were primarily responsible for live-streaming classes, we terminated the business relationship with a majority of them and continued to engage the remaining personnel for the development of our pre-recorded video resources on a part-time basis. Since our agreements with part-time crew are generally on a project-by-project basis, we did not incur additional costs and expenses in connection with such termination of the part-time crew.

We believe the smart learning device service market in China remains to be broadly imbalanced and underserved, given that (i) according to the Frost & Sullivan Report, total K-12 students, our target users, in China was approximately 232.2 million in 2021 while our registered users were over 5.4 million as of the Latest Practicable Date and by April 2022, our MAU amounted to over 1.4 million in the past 12 months, (ii) there are over 3,100 county level cities or above in China while our offline distributor network currently only covers 344 county level cities, (iii) there are over 220,000 primary and secondary schools in China while the number of schools to which we supplied our smart classroom solutions was approximately 305 as of the Latest Practicable Date; and (iv) under the recent new education regulatory regime, schools are highly encouraged to carry out digital transformation which creates intensified needs for sophisticated smart classroom solutions; all of the above indicate that our current penetrations, in terms of geographic coverage, student population or school coverage, are generally low and there remain huge market demands and opportunities for us. Despite the above adjustments we made, we believe our smart learning devices remain attractive and popular, regardless of abundant free online education resources and other mobile tablets on the market that are not specially designed for students. Our smart learning devices possess a number of competitive advantages, including (i) sophisticated educational device systems empowered by AI and other technologies benefiting from over 20 years of industry experience, such as a large amount of digital interactive courseware that inspire the interest in learning, and

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the personalized study reports and learning recommendation our products could generate, and (ii) specialized functions designed for students that deliver a comfortable and efficient learning experience, such as eye-protection and parental control features, which allow the parents to conveniently track and review the students’ learning progress, for more details, please refer to “Business – Information Technologies and Infrastructure” in this document. Moreover, we are one of the first movers in China to develop and offer smart classroom solutions, which business has experienced a rapid growth in the Track Record Period, and is expect to continue to develop, especially in the third- and lower-tier cities, riding on recent favorable policies to promote digital equity and improve balanced education opportunities across the country. During the Track Record Period, we had supplied our smart classroom solutions to 65, 50 and 113 schools in 2019, 2020 and 2021, respectively. Over the same period, revenue derived from smart classroom solutions increased from RMB8.2 million in 2019 to RMB23.6 million in 2021, representing a CAGR of 42.4%. In the period from January 1, 2022 to the Latest Practicable Date, we supplied our products to an additional 21 schools across the country. Among all the schools we served, approximately 66.6% were located in third- and lower-tier cities.

Recent Communications with Regulatory Authorities

To better understand and to properly comply with these new policies, we, together with the representatives of our PRC Legal Advisor and the PRC Legal Advisor to the Joint Sponsors, participated in a series of interviews with the local and central education authorities.

On August 11, 2021, we participated in an interview with a senior officer from the Education Supervision Division under the Department of Education of Guangdong Province. We informed Department of Education of Guangdong Province that we have completed the adjustment to our operations by fully terminating the live-streaming classes shortly after issuance of the Opinions. In addition, we were advised, among other things, that (i) we are not an after-school tutoring service provider whose operations are directly regulated by the Opinions, therefore, our current businesses are not required to obtain the permit to commence (辦學許可) as provided by the Non-state Education Promotion Regulation; (ii) the provision of digital educational resources in the form of pre-recorded video does not constitute a form of after-school tutoring business strictly regulated by the Opinions and is permitted under current regulatory requirements; and the provision of pre-recorded video resources without separately charging fees is encouraged by the Opinions; and (iii) for the live-streaming classes provided during the Track Record Period prior to the issuance of the Opinions, we have completed the requisite filing procedures for its operations, including obtaining the Certificate of After-school Online Tutoring (《廣東省校外線上培訓備案證明》) issued by the Department of Education of Guangdong Province.

In light of new follow-up new policies, on October 9, 2021, we participated another interview with the same senior officer from the Education Supervision Division under the Department of Education of Guangdong Province. We were advised, among other things, that (i) as to the jurisdiction where we are located, the Education Supervision Division under the Department of Education of Guangdong Province is the competent authority to supervise the

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after-school tutoring related matters and it is authorized to reply enquires in relation to the Opinions and provide advice and confirmations in connection with the Opinions and other related policies; (ii) we are not an after-school tutoring service provider and it is not directly subject to the Opinions and the follow-up policies; (iii) the provision of digital educational resources in the form of pre-recorded video does not constitute a form of after-school tutoring business strictly regulated by the Opinions and the follow-up policies; and (iv) the Opinions and the follow-up new policies do not have a retrospective effect on our provision of live-streaming classes prior to the release of the Opinions.

On November 1, 2021, we participated an interview with the director of the general office under the Department for Supervision of After-School Tutoring Institutions of the Ministry of Education. We were advised, among other things, that (i) the education authorities at each provincial level are responsible for the execution and implementation of the Opinions within their jurisdiction; as to the jurisdiction where we are located, the Education Supervision Division under the Department of Education of Guangdong Province (with which we conducted the previous interviews on August 11 and October 9, 2021) is the competent authority to supervise the after-school tutoring related matters and it is authorized to reply enquires in relation to the Opinions and provide advice and confirmations in connection with the Opinions and other related policies; and (ii) we shall follow the advice and confirmations obtained from the Education Supervision Division under the Department of Education of Guangdong Province in the previous interviews when conducting its business operations, and (iii) we shall seek advice from the Education Supervision Division under the Department of Education of Guangdong Province in connection with the Opinions and other related policies in the future.

Based on the third interview conducted on November 1, 2021, we believe, and the Joint Sponsors concur, that the confirmations we received from the senior officer during the interviews on August 11 and October 9, 2021, respectively, are valid, sufficient and properly authorized, and could be relied on to guide our business operations going forward.

We were advised by our PRC legal advisor that, after (i) verifying the identification of interviewees, including their current positions, through obtaining identification documents, follow-up confirmations and other proofs from the officers of the same departments, and (ii) reviewing the information with respect to the duties and responsibilities of relevant positions and departments as published on the official websites of the education government authorities, the interviewees are competent to provide the confirmations to matters discussed in their respective interviews. Our PRC legal advisor and our Directors are of the view, and the Joint Sponsors concur, that the likelihood of those confirmations being challenged by a higher level authority is relatively low. In addition, based on these interviews, we were also advised by our PRC Legal Advisor that (i) the provision of pre-recorded video resources does not constitute a form of after-school tutoring business strictly regulated by the Opinions and the follow-up policies and hence would not be regarded as an indirect circumvention of the Opinions as confirmed by the interviews, (ii) the Company is not considered as engaging in the online tutoring operations strictly regulated by the Opinions, and it is not required to obtain additional permits or licenses for the Company's existing operations going forward, and (iii) in terms of the previous business operations during the Track Record Period and prior to the promulgation of the Opinions, it has not been found in violation of the relevant laws and regulations.

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In January and February 2022, we voluntarily requested the Department of Education of Guangdong Province to review whether our products and services are in compliance with the Opinions. For the review, we submitted our C30 personal student tablets, C18 personal student tablets, A9 smartwatches and D1X smart scanner pens (the “**Reviewed Product Models**”) as our product samples. On February 15, 2022, we obtained a written opinion (the “**Written Opinion**”) from the Department of Education of Guangdong Province. The Written Opinion confirms that (i) our business and our major products, namely personal student tablets, wearable products and other smart accessories, do not constitute a form of after-school tutoring business regulated by the Opinions; and (ii) we are not an after-school tutoring service provider and it is not directly subject to the Opinions and the follow-up policies. As (i) the Reviewed Product Models each individually was one of the top contributors to the sales amounts among their similar products and collectively accounted for 28.7% of our total sales amount for the year ended December 31, 2021, and (ii) the major differences among different models of personal student tablets, smartwatches and smart scanner pens are hardware performance rather than education content, our Directors are of the view that the Reviewed Product Models are representative products of our business.

According to our PRC Legal Advisor, pursuant to the Opinions, authorities at provincial level shall screen and evaluate registered online curriculum tutoring institutions and re-issue approvals in accordance with the new standards. Besides, based on the information regarding to the responsibilities and functions of the Department of Education of Guangdong Province set forth on the official websites of the Ministry of Education and the Department of Education of Guangdong Province, (i) the Department of Education of Guangdong Province is responsible for enforcing and implementing education laws, regulations, guidelines and policies within Guangdong provincial area, thus the Department of Education of Guangdong Province is a competent authority to implement the relevant national rules, regulations and policies, including the Opinions, and the senior officer is in charge of after-school tutoring matters and is authorized to give such confirmations, and (ii) based on the facts that (a) the Department of Education of Guangdong Province is the competent authority in responsible for the administrative management of after-school tutoring matters, (b) the Department of Education of Guangdong Province is the actual enforcement entity of the education laws and regulations, and (c) the confirmations provided by the senior officer do not contradict with other policies, laws and regulations, including the Opinions, that have been released to the public so far, the likelihood that the confirmations provided by the senior officer to be challenged by a higher level authority, including the provincial education department (i.e. the Department of Education of Guangdong Province) and/or other national authority, is low. In addition, based on the interviews, our PRC Legal Advisor is of the opinions, upon the adjustments to our business operations as described above, that (i) the provision of pre-recorded video resources would not be regarded as an indirect circumvention of the Opinions, (ii) we are not considered as engaging in the online tutoring operations strictly regulated by the Opinions, and we are not required to obtain additional permits or licenses for our existing operations going forward, and (iii) in terms of our previous business operations during the Track Record Period and prior to the promulgation of the Opinions, we have not been found in violation of the relevant laws and regulations.

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For more details about the recent regulatory change and our responses, please refer to “Regulatory Overview” and “Business” sections. Please also refer to “Risk Factors – Risks Relating to Our Industry and Business – PRC education industry is currently subject to evolving regulatory and policy changes. Uncertainties with respect to the PRC legal system, especially the education related laws and regulations, could have a material adverse effect on us and limit the legal protection available to [REDACTED].”

Recent Regulatory Development in China

Cybersecurity

On December 28, 2021, 13 PRC regulatory agencies including the Cyberspace Administration of China (the “CAC”) published the Cybersecurity Review Measures (《網絡安全審查辦法》(2021)) (the “**Cybersecurity Review Measures (2021)**”), which became effective on February 15, 2022 and supersede the Measures for Cybersecurity Review (《網絡安全審查辦法》) promulgated on April 13, 2020. The Cybersecurity Review Measures (2021) provides that a critical information infrastructure operator (the “CIIO”) purchasing network products and services, and network platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Cybersecurity Review Measures (2021) also provides that a network platform operator with more than one million users’ personal information aiming to list abroad must apply for cybersecurity review.

With respect to the identification of CIIOs, Article 31 of the Cyber Security Law (《網絡安全法》), which came into effect on June 1, 2017, introduces the concept of “critical information infrastructure” by enumerating seven main industries and sectors including public communications and information service, energy, transport, water conservancy, finance, public service and e-government, and stipulates that the specific scope and security measures for critical information infrastructure shall be developed by the State Council. In coordination with the implementation of Article 31 of the Cyber Security Law, the Security Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》) (the “CII Regulations”), which came into effect on September 1, 2021, regulates the procedures of identification of “critical information infrastructure,” that competent authorities as well as the supervision and administrative authorities of the important industries and sectors such as public communications and information service, energy, transport, water conservancy, finance, public service, e-government and science, technology and industry for national defence (collectively, the “Protection Authorities”) in the CII Regulations will establish the rules for the identification of critical information infrastructures based on the particular situations of the industry and report such rules to the public security department of the State Council for record, and they are responsible for organizing the identification of critical information infrastructures in their own industries and sectors in accordance with the identification rules, promptly notifying the operators of the identification results and reporting to the public security department of the State Council. As of the date of this submission, no relevant authority has published any detailed rules for identification of the critical information infrastructures, and to the knowledge of the Company, the Company had not received any notification from the Protection Authorities about being identified as a CIIO.

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On November 14, 2021, the CAC publicly solicited opinions on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) (the “**Draft Data Security Regulations**”, together with the Cybersecurity Review Measures (2021), the “**Cybersecurity Regulations**”), which applies to activities relating to the use of networks to carry out data processing activities within the territory of the PRC. The Draft Data Security Regulations also provides that a data processor who processes more than one million users’ personal information aiming to list abroad or a data processor who seeks to complete a listing in Hong Kong which affects or may affect national security is required to apply for cybersecurity review pursuant to relevant rules and regulations. However, the Draft Cyber Data Security Regulations does not provide the standard to determine the circumstances that would be determined to “affect or may affect national security.”

In light of the above, on February 25, 2022, our PRC legal advisor, the PRC legal advisor to the Joint Sponsors and representatives of the Joint Sponsors conducted a phone consultation with the China Cybersecurity Review Technology and Certification Center (the “**Center**”) which undertakes the specific work of the Cybersecurity Review Office of the CAC under the authorization of the CAC, (the “**Consultation**”). In the Consultation, we have disclosed our name and introduced the business of us in details. After that, the Center confirmed that: (i) according to the Cybersecurity Review Measures (2021), although we fall within the scope of “network platform operators” regulated by the Cybersecurity Review Measures (2021), however, given that Hong Kong is a part of the PRC and does not fall within the definition of “abroad” under the Cybersecurity Review Measures (2021), the [REDACTED] of us in Hong Kong is not subject to the cybersecurity review application requirement under Cybersecurity Review Measures (2021), and the Center will not accept the application from us even if we intend to file a written cybersecurity review application; and (ii) the Draft Data Security Regulations was released for public comment only and does not come into effect, and therefore we are not required to apply for cybersecurity review pursuant to the Draft Data Security Regulations.

Based on the Consultation, we are of the view, and our PRC legal advisor concurs, that: (i) part of the Cybersecurity Regulations, such as provisions in relation to “network platform operators”, are applicable to the business of our subsidiaries in the PRC, if the draft regulations were to be implemented in their current form; (ii) as of the Last Practicable Date, although we possess more than one million users’ personal information, the cybersecurity review application requirement under the Cybersecurity Regulations is not applicable to the [REDACTED] of us in Hong Kong. However, since there has been no published formal explanation or any practical case for identification standard and procedures of the “data processor intends to be listed in Hong Kong”, should the Draft Data Security Regulations be implemented in its current form in the future, there is uncertainty whether we shall apply for cybersecurity review in accordance with the Draft Data Security Regulations with respect to its [REDACTED] in Hong Kong in the future.

As of the Latest Practicable Date, we had not been subject to any material administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to cybersecurity and data protection, nor had there been material cybersecurity and data protection incidents or infringement upon any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of our knowledge,

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threatened against or relating to us, and according to the consultation to competent authority, we are not required to apply for cybersecurity review for the proposed [REDACTED]. If the Cybersecurity Regulations was to be implemented in its current form, based on the foregoing, our directors and our PRC legal advisor do not foresee any material impediments for us to comply with the Cybersecurity Regulations in all material aspects, given that as disclosed in “Business – Data Privacy and Security”, we have implemented a comprehensive set of internal policies, procedures, and measures to ensure our compliance practice. We will continue to closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, including the Cybersecurity Regulations and the interpretation or implementation rules of laws and regulations of cybersecurity and data protection, and we will adjust and enhance the data practices in a timely manner to ensure compliance once the regulations come into effect. Specifically, we will (i) take immediate steps to ensure compliance with new regulatory requirements within a reasonable period of time, including thoroughly reviewing our business practices and operational policies, improving our privacy policies and service agreements with our users, establishing relevant mechanism in response to data security incidents, applying for cybersecurity review if applicable, filing important data with competent authorities if applicable and submitting relevant data security assessment report if required; (ii) proactively maintain communications with the CAC’s local branches, and continuously improve the operational procedures; and (iii) continue to improve our data security protection technologies.

Based on the foregoing analysis, and with advice of our PRC legal advisor, our directors are of the view that the Cybersecurity Regulations, if implemented in its current form, would not have a material adverse impact on our business operations, financial performance or the proposed [REDACTED] in Hong Kong.

Rules Relating to Overseas Listing

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the “**Draft Overseas Listing Administration Provisions**”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the “**Draft Overseas Listing Filing Measures**,” together with the Draft Overseas Listing Administration Provisions, the “**Draft Regulations on Listing**”), which are open for public comments until January 23, 2022.

The Draft Overseas Listing Administration Provisions, if adopted in its current form, will comprehensively improve and reform the existing regulatory regime for overseas offering and listing of PRC domestic companies’ securities, and will regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities by adopting a filing-based regulatory regime. According to the draft regulations, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information.

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Overseas offerings and listings that are prohibited by specific laws and regulations, constitute threat to or endanger national security, involve material ownership disputes, the PRC domestic companies, their controlling shareholder or actual controller involving in certain criminal offence, or directors, supervisors and senior management of the issuer involving in certain criminal offence or administrative penalties, among other circumstances, are explicitly forbidden. As implementation rules, the Draft Overseas Listing Filing Measures specifies the filing requirement and procedures. The Draft Overseas Listing Filing Measures provides that if the issuer meets the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering by PRC domestic companies: (i) any of the revenue, net profit, total assets or net assets of the domestic companies accounted for more than 50% of the respective audited revenue, net profit, total assets or net assets of the issuer within the latest fiscal year; (ii) a majority of the officers responsible for management of the issuer are PRC citizens or have their usual place of residence located in mainland China, the issuer's main place of operation is within mainland China. It is unclear based on the Draft Overseas Listing Filing Measures whether either or both of the above criteria need to be satisfied. Where an issuer makes an application for initial public offering to competent overseas regulators, the issuer must submit to the CSRC filing documents within three working days after such application is submitted. The Draft Overseas Listing Filing Measures also requires subsequent report to the CSRC on material events, such as material change in principal business and change of control.

At the press conference held for these draft regulations, officials from the CSRC clarified that implementation of the Draft Regulations on Listing will follow the non-retroactive principle, which means only the initial public offerings by PRC domestic companies and financing by existing overseas listed PRC domestic companies to be conducted after the foregoing regulations become effective will be required to complete the filing process. In addition, the new regulations and rules will grant a proper transition period for existing overseas-listed companies that do not have subsequent financing activities to comply with the filing requirement.

If the Draft Regulations on Listing become effective in their current form before the [REDACTED] is completed, our PRC legal advisor is of the view that we may be required to complete the filing procedures with the CSRC in connection with the [REDACTED]. However, as of the Latest Practicable Date, the Draft Regulations on Listing were released for public comments only and the final version and effective date of such regulations are subject to change with substantial uncertainty. Therefore, as advised by the PRC legal advisor, this [REDACTED] contemplated in this document is currently not subject to any filing procedures with, or approval from, the CSRC. In addition, as of the Latest Practicable Date, we have not received any inquiry, notice, warning, or sanctions regarding this [REDACTED] or any other PRC government authorities with respect to the filing requirement under the new regulatory regime.

As of the Latest Practicable Date, we had not received any inquiry, notice, warning, or sanctions regarding this [REDACTED] or our corporate structure from CSRC or any other PRC government authorities with respect to the filing requirement under the new regulatory regime. To our best knowledge, none of the circumstances that would prohibit PRC domestic companies from conducting overseas listing and offering under the Draft Regulations on Listing exists for us. Our PRC legal advisor has also conducted public searches against our PRC-incorporated subsidiaries, our controlling shareholders and actual controllers, as well as

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our directors and senior management, and did not find any of them having been involved in relevant criminal offences or administrative penalties that would prohibit us from conducting overseas [REDACTED] or [REDACTED] under the Draft Regulations on Listing. Based on the foregoing and our PRC Legal Advisor's due inquiry, our PRC Legal Advisor does not find that we fall within any of the circumstances which would prohibit PRC domestic companies from conducting overseas listing and offering as provided under the Draft Regulations on Listing. Therefore, if the Draft Regulations on Listing become effective in their current form before the [REDACTED] is completed, other than uncertainties of the filing procedures which may be further clarified in the final version of the Draft Regulations on Listing and/or their implementation rules, we do not foresee any impediment for us to comply with the Draft Regulations on Listing in any material respect.

Industry Developments

According to Frost & Sullivan, it is noticed that almost all after-school tutoring service providers who previously offered live-streaming classes had discontinued such business shortly after the Opinions were released. Nevertheless, the needs of students and parents for high-quality after-school education content remain strong. Encouraged by recent government's initiatives to strengthen the offering of free online education content, it is expected that there will be more education content provided in the form of pre-recorded video resources or other new forms or new content distribution channels available in the market for the students in the near future. However, the entry barriers with respect to hardware design and development technologies have prevented the tutoring service providers and other potential new market players, such as existing leading IT companies that intent to tap in to education and learning device industries, from engaging in the development and production of smart learning devices. It is more likely that these entities may seek collaboration with existing hardware manufacturers, instead of relying on their in-house research and development efforts, to offer educational resource in the forms permitted by the relevant laws and regulations in the future. On the other hand, many existing hardware manufacturers lack the experience and expertise in developing high quality and diverse educational resources by themselves, who usually source educational content from third parties, including us. As such, we believe our competitive advantages in developing high quality smart learning devices with comprehensive digital educational resources have well positioned us to capture the market opportunities in the new education regulatory regime.

Based on (i) the anticipated new competitive landscape as mentioned in the previous paragraph, (ii) the above-mentioned industry data in relation to China's smart learning device service market which is proved to be broadly imbalanced and underserved, (iii) the above-stated analysis that there is no material adverse impacts on our business and financial performance due to the discontinuity of live-streaming classes, and (iv) the fact that our operations have been stable after the Opinions were released, our Directors are of the view that the market demands and popularity of our smart learning devices will remain stable going forward.

SUMMARY

IMPACTS OF THE COVID-19 OUTBREAK

In late 2019, an outbreak of respiratory illness caused by a novel coronavirus, or COVID-19, was quickly spreading around the world, including in China. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat.

Due to the COVID-19 outbreak and the government’s relevant control measures, we temporarily suspended our production and assembly facility for a period of ten days from February 2, 2020 to February 11, 2020. We had fully resumed our production and assembly activities as of February 12, 2020. In order to prevent and control the outbreak, we adjusted our business operations and set up specific plans for resumption of work, our health and safety management system and emergency plans.

Moreover, subject to various travel restrictions imposed by local governments in an effort to curb the spread of the COVID-19 pandemic, logistic services to deliver our products to customers were temporarily compromised in February and March 2020, especially in cities that were severely affected by the pandemic, such as Wuhan. Due to the COVID-19 outbreak, we encountered a temporary shortage and increase in prices of certain key raw materials. Nevertheless, as we had sufficient stock of raw materials during such period, we did not encounter any material interruption to our production and assembly activities. The logistic services and the supply of our raw materials have all been resumed to normal in the third quarter of 2020. Moreover, to help our distributors to fight against the pandemic, we temporarily launched a number of policies in favor of our distributors, including extending the period for repair and maintenance services for a period of one to three months, and giving away free gifts to motivate purchasers. Total monetary value of the free gifts was less than RMB28,100, which we believe is insignificant and had no material impact on our financial performance.

On the other hand, despite the short-term lock down measures implemented in certain cities during the COVID-19 outbreak, the overall sales of our offline distributors were not materially adversely affected, which was primarily due to the surging market demands as a result of the home-based online education policy promoted by central and local governments. In addition, our offline distributors also actively deployed various marketing measures on social media and other online platforms and collaborated with local logistic service providers to offer door-to-door delivery service.

We estimated that we incurred anti-pandemic related expenses of approximately RMB365.0 thousand, which were primarily recorded in the first half of 2020 and mainly in connection with the purchases of medical and safety supplies for our employees. We believe such amount was insignificant and other than this, we did not incur other material anti-pandemic expenses during the Track Record Period.

The abovementioned analysis is for illustrative purpose only and actual impact caused by the COVID-19 outbreak will depend on its subsequent development. Our Directors will continue to assess the impacts of the COVID-19 on the business and financial performance of our Group and will closely monitor the risks and uncertainties arising thereof. See “Business – Impacts of COVID-19 Outbreak” for a more detailed discussion of the impacts of the COVID-19 on us.